IPA INSTITUTE OF PUBLIC ACCOUNTANTS

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Modernising the calculation of work related car expense deduction

The IPA welcomes the opportunity to provide a submission on the exposure draft Tax and Superannuation Laws Amendment (2015 Measures No.#) Bill 2015: Simplifying the car expense deduction rules (**ED**) and the accompanying explanatory material (**EM**).

The IPA is a professional organisation for accountants who are recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members and students in Australia and in more than 81 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. More than 75 per cent of our members work in or with small business and SMEs and are recognised as the trusted advisers to these sectors.

The IPA is generally supportive of measures that reduce complexity and the compliance burden in the administration of taxation law. The proposed changes reduce the methods by which a taxpayer can claim a tax deduction for work related car expenses from four to two methods. These changes were announced as part of the 2015/16 Federal Budget to simplify and modernise the methods for calculating car work expenses. Currently, the following four methods are available to individual taxpayers for calculating their work-related car expense deductions.

1. the '12 per cent of the original value' method;
2. the 'one-third of actual expenses' method;
3. the 'cents per kilometre' method; and
4. the 'log book' method.

The first three of the above-listed methods are considered arbitrary because they do not accurately reflect the actual running costs of cars, and the fourth method is considered more substantive, better reflecting actual cost of running a car. The Government wants to remove option 1 and 2 above. In addition to reducing the available options, the proposal is to remove the current three rates that apply according to the vehicle's engine capacity and replace with it with a single cents per kilometre rate of 66 cents (option 3 above).

Specific comments on the simplification of the calculation of work related car expenses deductions, as follows:

1. Whilst employers are able to set their own rate payable, most adopt the ATO cents per kilometre to reimburse employees .Reducing the current three rates to one will potentially reduce what employees will receive from their employers when using larger cars with engine capacity exceeding 1.6L for work purposes. Employers who a higher rate than 66c/km will need to report this allowance on the employees payment summary.

2. The two car expense methods to be removed, namely the 12% of original value method and the one-third of actual expenses method, are quite simple methods for taxpayers and tax practitioners to use. They are also relatively easy to substantiate for compliance purposes. If the single cents per kilometre rate proceeds as proposed, these methods would be used more extensively than they are currently used.

3. Reducing two of the arbitrary options for calculating car deductions leaves just one simple method for taxpayers to choose from. If the three rates available under cents per kilometre where not changed, then arguably the remaining arbitrary option would be more palatable.

4. The EM states that the 66 cents is the average per kilometre running cost of the top five selling cars based on data from peak motoring bodies. Using the average cost data from the top selling five cars may not reflect the average actual cost of work-related car use, especially if taxpayers are using vehicles which do not reflect the top selling models. Individuals using larger cars which have engine capacity greater than 1.6L will be disadvantaged. We fail to understand how the following statement in the EM in respect of taxpayers who use cents per kilometre can be correct.

   "These changes are not expected to adversely affect the vast majority of taxpayers who currently utilise the two methods which will be retained; the cents per kilometre method and the logbook method."

5. The log book method is the most onerous option for calculating car expense deductions. Some taxpayers may now find this option more popular given that the cents per kilometre may now not better reflect actual running costs of running a larger vehicle. If more taxpayers use the log book method, there could be an increase in what they might otherwise claim had they used the cents per kilometre method.

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The IPA welcomes the opportunity to discuss further any of the matters we have put forward in our submission. Please address all further enquires to myself (tony.greco@publicaccountants.org.au or 0419 369 038).

Yours sincerely,

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